

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 EUR-25 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-03 PRS-01 USIA-15 RSR-01 /174 W

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R 301110Z AUG 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 2796

C O N F I D E N T I A L PHNOM PEH 9116

E.O. 11652

TAGS: EAID, EFIN, CB

SUBJ: ESF AND FOREIGN EXCHANGE

REF: STATE 14226 #

1. WE ARE SURPRISED THAT CHABRIER IS SURPRISED THAT EXCHANGE

RATE DID NOT MOVE SOONER. THE IMF RES REP HERE DID NOT SEEM TO BE PRESSING HARD FOR EARLY AND ADEQUATE FX RATE ADJUSTMENT IN THE WAKE OF THE IMF MISSION RECOMMENDATIONS. WE ASSUMED HE WAS IN ACCORD WITH IMF WASHINGTON VIEWS. NEEDLESS TO SAY NEW ECONOMIC COUNSELOR HAS MADE EXCHANGE RATE A MATTER OF PRIME CONCERN, AND WE HAVE BEEN PRESSING HARD FOR EXCHANGE RATE MOVEMENT. AS REPORTED WE HAD SPECIFICALLY URGED RAPID EXCHANGE RATE IOBRBGUEKWO#280. AFTER OUR PRESENTATION TO GOVERNOR OF BNC, HE SAID HE WAS IN AGREEMENT WITH US THAT RATE SHOULD MOVE TO THAT LEVEL. IMF RES REP EVERS, HOWEVER, OPPOSED MOVE TO 280, AND AS REPORTED, RES REP FELT RATE SHOULD ONLY MOVE TO 250. IT IS OUR FIRM CONVICTION THAT HAD IMF RES REP RECOMMENDED TO GOVERNOR BNC RATE MOVE TO 280 AT THE SAME TIME WE DID, THE EXCHANGE RATE WOULD NOW BE 280.

2. WE FULLY SHARE CHABRIER'S VIEW THERE SHOULD BE CARRYOVER OF
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PORTION OF THIS YEAR'S ESF FUNDS INTO NEXT YEAR. SINCE IT IS BY

NO MEANS CERTAIN THAT RUBBER EXPORTS WILL INCREASE AS MUCH AS WE HOPED, THE PROSPECTS FOR ACHIEVING THE TOTAL EXPORT EARNINGS OF \$14 MILLION THIS YEAR AND \$22 MILLION FOR NEXT YEAR WHICH WE PROJECT ARE NOT BRIGHT. THEREFORE PRUDENCE DICTATES WE SHOULD NOT COUNT ON A SIGNIFICANT GKR CONTRIBUTION. CONSEQUENTLY INCREASE IN EXCHANGE RATE BECOMES PRINCIPAL TOOL IN CONSERVING ESF RESOURCES INTO NEXT YEAR, TOGETHER WITH POSSIBILITY OF RESTRICTIONS ON USES OF NOUVEAU MARCHE RESOURCES.

3. IT APPEARS THERE IS SOME LOSS OF COMMUNICATION BETWEEN IMF IN WASHINGTON AND THEIR RES REP HERE. IT WOULD BE MOST HELPFUL IF IMF WASHINGTON COULD ADVISE THEIR REP IN PHNOMPENH OF THE IMPORTANCE THEY SEE IN MORE MOVEMENT IN THE EXCHANGE RATE. IN ADDITION IT MIGHT BE USEFUL TO DISCUSS WITH IMF OUR RECENTLY FORWARDED MONETARY ANALYSIS WHICH PROVIDES, WE BELIEVE, BASIS FOR MORE RAPID UPWARD MOVEMENT IN EXCHANGE RATE FOR PURPOSES OF MONETARY ABSORPTION.

4. WE INTEND TO CONTINUE TO PRESS ON EXCHANGE RATE WITH BOTH GOVERNOR BNC AND EVERS AND HOPE THAT FULL PRESENTATION OF OUR MONETARY ANALYSIS TO EVERS WILL ALTER HIS VIEW ON HOW RAPIDLY EXCHANGE RATE MUST MOVE.

5. WITH REGARD TO OTHER ECONOMIC POLICY MEASURES, WE WOULD LIKE TO PRESS AHEAD WITH RAISING INTEREST RATES. IT WOULD BE USEFUL FOR US TO KNOW WHAT THE FUND'S RECOMMENDATIONS WERE WITH REGARD TO TIMING OF INTEREST RATE INCREASES. WE UNDERSTAND THE AMOUNT OF THE INCREASE WOULD BE LOAN RATE INCREASING TO 25 PCT AND CORRESPONDING INCREASE IN DEPOSIT RATES. WOULD BE OF INTEREST TO HAVE ASSESSMENT AS TO WHETHER FUND WOULD BE WILLING TO GO HIGHER THAN THAT.

6. WITH REGARD TO QUESTION OF USE OF BLOCKED FRENCH FRANCS, WE TEND TO SHARE CHARBRIER'S VIEW THAT NEGOTIATIONS WOULD BE VERY TIME CONSUMING AND RESULTS WOULD PROBABLY BE NEGATIVE. EVEN SO, IT MIGHT BE WORTH COMMENCING SUCH NEGOTIATIONS IN VIEW OF THE PROSPECTS FOR CONTINUED TIGHT FOREIGN EXCHANGE SITUATION.
SWANK

NOTE BY OC/T: #AS RECEIVED. WILL BE SERVICED UPON REQUEST.
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